



STATE BOARD OF EQUALIZATION

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Executive Secretary

July 17, 1978

78/123

TO COUNTY ASSESSORS, COUNTY COUNSELS,  
AND OTHER INTERESTED PARTIES:

PUBLIC HEARING  
PROPERTY TAX RULES 460 THROUGH 471

The State Board of Equalization adopted on an emergency basis Property Tax Rules 460 through 471, effective July 3, 1978, to provide guidelines for the assessment of property pursuant to Article XIII A of the Constitution.

Enclosed is a notice of public hearing of Rules 460 through 471 to be heard in Room 102, 1020 N Street, Sacramento, on August 22, 1978, at 10:00 a.m.

Written comments with regard to the enclosed notice are welcome and should be directed to me. If you wish to present testimony pertaining to the rules at the hearing, please notify me by mail at the above address or by telephone, 916/445-6479, by August 11 so that an orderly agenda can be prepared.

Sincerely,

Janice Masterton  
Calendar Clerk

JM/k  
Enclosure

NOTICE OF ADOPTION OF EMERGENCY REGULATIONS  
BY THE STATE BOARD OF EQUALIZATION

Notice is hereby given that the State Board of Equalization, pursuant to the authority vested in Section 11409 of the Government Code (Administrative Procedure Act), and to implement, interpret or make specific sections of Article XIII A of the California Constitution and Sections 110, 110.1, 110.5 and 110.6 of the Revenue and Taxation Code, has adopted and filed as an emergency on July 3, 1978, regulations in Title 18 of the California Administrative Code as follows:

(1) Adopts Regulation 460 to read:

460. General Application.

(a) Sections 1 and 2 of Article XIII A of the Constitution provide for a limitation on property taxes and a procedure for establishing the current taxable value of locally assessed real property by reference to a base year full cash value which is then modified annually to reflect the inflation rate not to exceed two percent per year.

(b) The following definitions govern the construction of the terms in the rules pertaining to Sections 1 and 2 of Article XIII A.

(1) Base year. The assessment year 1975-76 serves as the original base year. Thereafter, any assessment year in which real property, or a portion thereof, is purchased, is newly constructed, or changes ownership shall become the base year used in determining the full value for such real property, or a portion thereof.

(2) Full cash value.

(A) The full cash value of real property means the "full cash value" as defined in Section 110 of the Revenue and Taxation Code, as of:

1. The lien date in 1975, for the base year 1975-76, and
2. The date such real property is purchased, is newly constructed, or changes ownership after the 1975 lien date, the full cash value of which shall be enrolled on the lien date next succeeding the date when such real property, or portion thereof, is purchased, is newly constructed, or changes ownership, for the 1976-77 base year and thereafter.

(B) If real property has not been appraised pursuant to Section 405.5 of the Revenue and Taxation Code to its appropriate base year full cash value, then the assessor shall reappraise such property to its full cash value for the appropriate base year lien date. Such reappraisals may be made at any time, notwithstanding the provisions of Section 405.6 of the Revenue and Taxation Code.

(3) Restricted value. Restricted value means a value standard other than full cash value prescribed by the Constitution or by statute authorized by the Constitution.

(4) Full value. Full value (appraised value) means either the full cash value or the restricted value.

(5) Inflation rate. For each lien date after the lien date in which the base year full value is determined, the full value of real property shall be modified to reflect the percentage change in cost of living, as defined in Section 2212 of the Revenue and Taxation Code; provided, that such value shall not reflect an increase in excess of 2 percent of the taxable value of the preceding lien date.

(6) Taxable value. Taxable value means the base year full value factored annually by the inflation rate.

(7) Property tax rate. The property tax rate is the rate calculated in accordance with the ad valorem tax limitation prescribed by Section 1 of Article XIII A of the Constitution.

(2) Adopts Regulation 461 to read:

461. Changes to Taxable Value.

(a) Removal. The taxable value of real property, or portion thereof, physically removed from the site shall be deducted from the property's taxable value, provided that such net taxable value shall not be less than zero.

(b) Depreciation. The taxable value of real property shall not reflect changes for depreciation, appreciation or changes in zoning after the base assessment year full value has been established other than by the inflation rate.

(3) Adopts Regulation 462 to read:

462. Change in Ownership.

There shall be a reappraisal of real property as of the date of the change in ownership of that property. The reappraisal will establish a new base year full value and will be enrolled on the lien date following the change in ownership. Except as provided in subsection (b) and through (f) of this section, "change in ownership" refers to all transfers of property whether by grant, gift, devise, inheritance, trust, contract of sale, addition or deletion of an owner, property settlement, or any other change in the method of holding title, whether by voluntary or involuntary transfer or by operation of law. If any portion of property is transferred, other than an undivided interest, then only that portion transferred will be revalued.

- (a) A transfer of the full fee title of land and/or improvements by any means is a sufficient change in ownership for reappraisal. This includes sales of units in planned developments as defined in Sections 11003 and 11003.1 of the Business and Professions Code and condominiums as defined in Section 783 of the Civil Code.
- (b) When less than the fee title passes, the following rules apply:
  - (1) A transfer of bare legal title, such as a security interest, is not a change in ownership.
  - (2) A transfer of equitable title is a change in ownership.
  - (3) A transfer of beneficial use and possession, other than leases and taxable possessory interests of 10 years or less, including a transfer of stock of a corporation vested with legal title which conveys to the transferee the exclusive right to occupancy and possession of the real property, is a change in ownership.
- (c) Foreclosure.
  - (1) Mortgage or deed of trust foreclosed by judicial action is a sufficient change in ownership only:
    - (A) After the period of redemption has passed and property has not been redeemed, or

(B) Upon redemption when title vests in the original debtor's successor in interest.

(2) Deed of trust foreclosed by trustee's sale shall cause a reappraisal after the sale has taken place.

(d) Tax deed and tax sale. A tax sale to the state will not cause reappraisal, but a sale by the state of tax-deeded property will cause reappraisal. The reappraisal will take place whether the original owner redeems from the state or a new owner purchases from the state.

(e) Leases and Taxable Possessory Interests. The creation or renewal of a lease for more than 10 years is a change in ownership causing reappraisal. The transfer of a lessee's interest, whether by assignment or sublease for more than 10 years, is also a change in ownership.

(1) The transfer of the lessor's interest by any means is a change in ownership causing reappraisal.

(f) The following transactions do not warrant reappraisal:

(1) Mere recording of a deed of trust or mortgage given as security for a loan.

(2) Change of name for the same person on a deed.

(4) Adopts Regulation 463 to read:

#### 463. Newly Constructed Property.

(a) The term "newly constructed" means and includes any addition or improvement to land, whether classified as land or improvement for purposes of enrollment, and any addition of new improvements or alteration of existing improvements if said alteration results in a conversion to another use or an extension of the economic life of the improvement.

Examples of alterations that qualify as "newly constructed" and thereby require current market value appraisal of the alteration are those that result in any increase in the usable square footage of a structure, the renovation of what was formerly residential property to make it usable for commercial purposes and vice versa, the conversion of property from one commercial use to another, and any alteration that materially increases the usefulness of the structure, such as the addition of a bathroom.

Excluded from alterations that qualify as "newly constructed" is construction or reconstruction performed for the purpose of routine or normal maintenance and repair, e.g., interior or exterior painting, replacement of roof coverings and the addition of aluminum siding. Also excluded are alterations which do not result in an increased usefulness of existing facilities, such as occurs in the modernization of a kitchen.

For purposes of Section 2(a) of Article XIII A of the Constitution, the definitions of land and improvements contained in Sections 121 and 122, respectively, and the examples contained in Section 124, shall apply.

(b) When real property, or a portion thereof, is newly constructed after the 1975 lien date, the assessor shall ascertain the full value of such "newly constructed property" as of the date of completion. This will establish a new base year full value for only that portion of the real property which is newly constructed. The taxable value of property which is removed during construction shall be deducted from the taxable value of pre-existing property; provided, that such net taxable value shall not be less than zero.

New construction in progress on the lien date shall be appraised at its full value on such date and each lien date thereafter until the date of completion, at which time the entire portion of property which is newly constructed shall be reappraised at its full value.

(5) Adopts Regulation 464 to read:

#### 464. Exemptions.

Article XIII A does not repeal any property tax exemptions granted or authorized by the Constitution on or before July 1, 1978. The property tax rate shall apply to the current taxable value less any exemptions applicable to a specific property. Examples of the application of partial exemptions are as follows:

- (a) Homeowners' exemption. The property tax rate applies to the current taxable value of property qualifying for the homeowners' exemption less the value of the exemption.
- (b) Veterans' exemption. The sum of 25 percent of the taxable value of taxable assets and 100 percent of the current full cash value as defined in Revenue and Taxation Code Section 110 for non-taxable assets will determine the limitation for the veterans' property tax exemption. Article XIII A contains no provision for reconsidering the granting of the exemption prior to 1978. The property tax rate applies to the current taxable value of property qualifying for the veterans' exemption less the value of the exemption.
- (c) Disabled veterans' exemption. The property tax rate applies to current taxable value of property qualifying for the disabled veterans' property tax exemption less the value of the exemption.

(6) Adopts Regulation 465 to read:

#### 465. Nonprofit Golf Courses.

When appraising real property used exclusively for nonprofit golf course purposes in accordance with the provisions of Section 10 of Article XIII of the California Constitution, the assessor shall ascertain the value of such property on the basis of such use, plus the full value attributable to any mineral rights, as of the appropriate base year, regardless of the date such property qualified under the constitutional provisions.

(7) Adopts Regulation 466 to read:

466. Valuation and Enrollment of Trees and Vines.

The base year full value of fruit and nut trees, vines, bushes, or other perennials when planted in orchard, grove, or vineyard form whether or not enforceably restricted shall be the most recent of the following:

- (1) The full value as of the 1975 lien date,
- (2) The full value as of the date of planting, or
- (3) The full value as of the date of a change in ownership.

The full value of trees and vines exempted by Article XIII, Section 3(i), of the State Constitution shall not be enrolled until the lien date following the expiration of the exemption.

(8) Adopts Regulation 467 to read:

467. Possessory Interests.

Regardless of the date of creation of the interest, the assessor shall ascertain the full value of all taxable possessory interests as of the 1975 base year, unless a change in ownership (e.g. a lease in excess of 10 years) or new construction establish a new base year full value for the possessory interest, or portion thereof. When it appears that the term of the possessory interest, determined in accordance with Section 23, will end at the conclusion of the estimated term, there shall be no reduction of full value as the term draws to an end. The value in this instance remains the taxable value.

(9) Adopts Regulation 468 to read:

468. Oil and Gas Producing Properties.

Petroleum, natural gas, and other fluid hydrocarbons are natural substances of the earth, and are classified as land. The volume of these hydrocarbons that will be removed from the land consists of the amount that is classified at a given time as "proved reserves." Proved reserves are the volumes of crude oil and natural gas which geological and engineering information indicate, beyond reasonable doubt, to be recoverable in the future from oil and gas reservoirs under existing economic and operating conditions. The development of proved reserves by drilling and completing wells and by installing production systems constitutes an addition to real property and the production of oil and gas constitutes a removal of real property.

- (a) The full value of an oil or gas producing property is its base year full value adjusted for depletion of reserves. The value attributable to such depletion shall be determined annually employing the economic data that applied in the base year.
- (b) The base year of newly developed reserves shall be the date of completion of the well or the installation of the production system.

(10) Adopts Regulation 469 to read:

469. Mines and Quarries.

Organic and inorganic minerals and rocks are natural substances of the earth, and are classified as land. The volume of minerals or rocks of acceptable quality that may be removed from the land under existing economic and operating conditions are classified as reserves. The creation of reserves by exploration or by development constitutes an addition to real property and the production of the minerals or rocks from a reserve constitutes a removal of real property.

- (a) The full value of a mine or quarry is its base year full value adjusted for the depletion of reserves. The value change attributable to the depletion of reserves shall be determined annually employing the economic data that applied to the establishment of the reserves in the base year.
- (b) The base year of new reserves shall be the year in which either development or mining occurs. In the absence of specific information on added reserves at a given property, the prior year's cost of development may be employed as a minimum indicator of the value of added reserves.

(11) Adopts Regulation 470 to read:

470. Open-Space.

All land subject to open-space enforceable restrictions imposed under provisions of the California Land Conservation Act shall have a base year restricted value determined by one of the following methods:

- (a) If enforceably restricted prior to the 1975 lien date with no subsequent change in ownership, the base year full value is the 1975 restricted value.